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ABSTRACT

An evaluative study was done by the Advisory Committee on Student Financial Assistance of the structure and costs of multiple data entry (MDE) processing for work on applications for higher education financial aid through federal programs. The Committee reviewed reports, met with Department of Education staff, completed a position paper, and received oral testimony and written materials from the student aid community. The Committee formulated recommendations with regard to assessment of the expansion of the number and type of MDEs and the impact on students and families; examination of the standardization of processing fees paid by the Department of Education to MDE contractors; and evaluation of the payment of system development costs associated with delivering MDE services. The findings of the study indicated that the legislature should transform the current Pell MDE contracts into Title IV contracts that would implement a free, common form for federal student assistance; expand the number of MDEs to a level that optimizes services to students and institutions; determine the level and range of processing fees paid to contractors through a revised procurement process; and provide for determination of appropriate, allowable system development costs through normal, competitive processes. Attached are an MDE position paper and a report on an MDE hearing. (JB)

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REPORT TO THE CONGRESS OF THE UNITED STATES:

RECOMMENDATIONS ON

MULTIPLE DATA ENTRY PROCESSORS

ADVISORY COMMITTEE ON STUDENT

FINANCIAL ASSISTANCE

AUGUST, 1988

HE026494

U.S. DEPARTMENT OF EDUCATION
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SUMMARY

Pursuant to its statutory charge, the Advisory Committee on Student Financial Assistance has conducted an examination and assessment of the structure and costs of multiple data entry processing (MDE). The Committee has reviewed reports, met with Department of Education (ED) staff, completed a position paper, and received oral testimony and written materials from the student aid community.

This interim report conveys to the Congress the Committee's recommendations concerning the three issues outlined in the law:

- assessment of the expansion of the number and type of MDEs and the impact on students and families;
- examination of the standardization of processing fees paid by ED to MDE contractors; and
- evaluation of the payment of (system) development costs associated with delivering MDE services.

In conducting its assessment, the Committee found that these issues have important implications for the entire Federal student aid delivery system and Congress' desire to rationalize delivery through the implementation of a free, common form for individuals applying for Federal aid. Our recommendations are presented below.

Recommendations on MDE Structure and Costs

- Transform the current Pell MDE contracts into Title IV contracts that implement a free, common form for Federal student assistance.
- Expand the number of MDEs to a level that optimizes services to students and institutions.
- Determine the level and range of processing fees paid to contractors through an open, fair, and competitive procurement process that weighs technical factors as strongly as cost factors in proposal evaluation.
- Provide for determination of appropriate, allowable system development costs--not forms development--through normal, competitive processes as in most other ED procurements.

Necessary Actions

The Committee's recommendations can be implemented through relatively straightforward legislative or administrative changes in the structure of the upcoming MDE and Pell procurements. First, participation criteria must be broadened to allow all technically qualified processors to compete for MDE slots. The

services required are not unique. Criteria such as having one's own financial aid form must not be used to arbitrarily restrict competition. Second, the statement of work must be modified to procure delivery of both the Pell and Campus-Based programs through inclusion of the Congressional Methodology. Third, the contracts must explicitly provide for adequate reporting services to students, institutions and states. Fourth, an early diagnostic eligibility service for needy junior high school students should be implemented as part of this contract.

Issues related to the level and variability of processing and system development fees paid by ED to MDE contractors will be eliminated by the proper design of the new MDE procurements.

Timing

The Committee feels strongly that these changes will lead to significant benefits for students and families and move toward the Congressional goals of free application for needy students for Federal aid through a common form. The recommendations above were delivered to the Secretary in a letter dated August 4, 1988. The letter was also forwarded to Congress. In that letter, the Advisory Committee respectfully requested a response from the Secretary within one week. Time is of the essence in that the procurements that will determine the structure and costs of MDE--as well as the near-term future of a free, common Federal form--are now under development. Timely acceptance of these recommendations and resolution of outstanding issues will allow these changes to be implemented for the 1990-91 academic year--thereby minimizing confusion and eradicating application fees for millions of needy students and families.

Copies of the letter to the Congress and the Secretary as well as the Committee's position paper and report on the comments received from the financial aid community are attached.

The Committee will issue a final report on MDE processing when it has received the Secretary's response and the Committee has reviewed the Department's RFP.

BACKGROUND

Through the reauthorization of the Higher Education Act (hereafter the Act) in 1986 and the Higher Education Technical Amendments in 1987, the Congress created the Advisory Committee on Student Financial Assistance and charged the Committee with, among other things, the responsibility to examine and make recommendations on multiple data entry processors. The Act, in Section 483(a)(2), states that:

> The Secretary shall not select new multiple data entry processors after the date of enactment of the Higher Education Amendments Act of 1986, until the Advisory Commission (sic) on Student Financial Assistance has examined and made recommendations on the expansion of the number and kind of processors and its impact of students, has assessed and made recommendations on the relative cost of processing applications and development fees, and has examined and made recommendations on the implementation of a standardized fee for the reimbursement of all processors by the Federal Government.

In addition, the Congress charged the Advisory Committee with evaluating the delivery system, in general, and recommending improvements.

The Committee, consisting of eleven members appointed by the President Pro Tempore of the Senate, upon recommendation of the Majority and Minority Leaders, the Speaker of the House, upon the recommendation of Majority and Minority Leaders, and the Secretary of Education, is actively discharging these and other responsibilities. The Committee meets approximately bi-monthly to hear testimony and consider issues related to its statutory charges. In addition to submitting the annual report, the Committee periodically reports to Congress on specific and notifies the Secretary of Education.

COMMITTEE ACTIVITIES

Since January, Advisory Committee members and staff have been examining the issues surrounding MDE. These activities have included:

- A briefing in January, 1988, by several MDE contractors on the topics of the structure of the contracts and the role they play in the delivery of Federal aid.
- A briefing in April, 1988, by ED staff including an historical overview of the MDE process and the basic structure and schedule of upcoming MDE procurements.

- Review of the Inspector General's report criticizing the current procurements as noncompetitive and costly, and recommending detailed cost/benefit analysis of Pell and other programs.

- Communication with ED to obtain specific information on ED analyses concerning MDE issues.

- Production of a position paper on the issues set forth in the law (Attachment A).

- Public hearings about the Federal student aid delivery system including issues related to the number and type of MDE contractors--at its July meeting in Denver (Attachment B).

- Discussion and formal acceptance of the position paper at the July meeting.

- Recommendations made to the Secretary on August 4, 1988 and to Congress on the MDE issues (Attachment C).

DISCUSSION

Expanding the Number/Type of Processors

The Committee supports the intent of the law to allow an expansion in the number of technically qualified MDE processors. The services required under this contract are no longer unique and many potential processors appear to have the necessary qualifications. The Committee supports the Inspector General's call for an open, fair, and competitive procurement that is not biased toward existing contractors through arbitrary participation and/or technical evaluation criteria. Furthermore, the Committee sees no reason to limit participation on the basis of type of processor--private, public, etc.

However, expansion in the number and type MDE processors and greater competition within the current structure can be expected to have two negative effects on students and families:

- proliferation of competing forms that deliver Federal aid; and

- increasing the number--and perhaps even the level of--fees to students.

In addition to these two serious disadvantages, uncontrolled expansion in what are now just Pell contracts maintains separate delivery of Pell and other Federal programs. Finally, expansion in this manner is inconsistent with Congress' inclusion of need analysis for all Federal programs in the law with the addition of

the Congressional Methodology. What is required is a solution that fosters competition, eliminates fees to needy students, reduces the number of forms, and integrates the delivery of Pell and other Title IV programs.

Transforming the Pell MDE contracts into Title IV MDE contracts that implement a free, common Federal form and awarding those contracts through a competitive procurement that weighs technical factors as well as cost will achieve these goals.

The Committee therefore recommends that in addition to expanding the number of MDEs to a level that optimizes services to students and institutions, the following legislative or administrative changes to the MDE procurements:

- open the competition to all technically qualified processors by eliminating arbitrary participation criteria;
- require all processors to implement a free, common form for individuals applying for Federal aid and eliminate the current Federal form as the means for applying for aid without charge;
- change the statement of work to reflect full service contracts, including adequate, standardized reporting services to students and institutions, training for institutional staff and other services needed to deliver Federal aid; and,
- implement free diagnosis of Federal aid eligibility for junior high school students, with particular emphasis on serving the disadvantaged.

Standardization of Processing Fees

The interest in standardizing processing fees paid by ED to MDE contractors stems largely from dissatisfaction with unacceptably large variations in the negotiated fees under the current contract. However, standardizing such fees using current ranges is inconsistent with open, fair competition among prospective contractors and is a step in the wrong direction.

In addition, these fees should not be standardized to include only the array of services currently delivered by MDE contractors. In order to be successful, the new MDE contracts must include sophisticated reporting, statistical summaries and other services not covered by current MDE contracts.

The Committee recommends that:

- o all processing fees be established competitively in response to the array of services required to implement Title IV-wide MDE services; and

- o ED increase competition among contractors to reduce the range of processing costs.

Development Costs

The Government typically allows for and reimburses contractors for modifying data processing systems to deliver required services. Two issues associated with development costs in the current MDE contracts have caused great concern: their negotiated level and variability across contractors; and the possible inclusion of forms development charges. The first will be eliminated by a well-designed procurement in which contractors must trim these costs to be competitive. The second issue is the more important. Since the Committee feels strongly that ED must require use of a common Federal form, costs for forms development must not be reimbursed.

CONCLUSIONS

The Advisory Committee's recommendations foster competition among technically qualified processors, eliminate fees to students to prove they are needy, reduce the number of and confusion associated with application forms, and integrate the delivery of Pell and other Federal student aid programs. The Committee also strongly recommends that ED use the MDE contracts in a proactive manner to provide early diagnostic eligibility data to junior high students. This program should be advertised aggressively to insure that all potentially eligible students--especially disadvantaged students--know of their right to apply for the Federal student aid programs free of charge. Currently, most students are paying fees and are unaware of the changes already made by Congress on their behalf.

The Committee's recommendations are eminently feasible and can be implemented through either administrative or legislative action. They pose no more difficulty in the areas of procurement scheduling and systems development than ED's proposed plan. The changes required to the participation criteria and work statement of the upcoming MDE procurement are straightforward and could be ready with time to spare.

Finally, the timing is such that the recommendations can be implemented for the 1990-91 academic year if ED acts quickly.

Attachment A

MDE Position Paper

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

POSITION PAPER:

MULTIPLE DATA ENTRY PROCESSORS

PREPARED BY THE

ADVISORY COMMITTEE STAFF

JUNE 1988

MDE PROCESSOR
DRAFT POSITION PAPER

Introduction

The Advisory Committee on Student Financial Assistance has been charged by Congress with providing advice and recommendations on the improvement of the student aid delivery system. This system has been justly criticized by objective observers as complex, inefficient, and perhaps even deleterious to achieving the equity goals of the Federal student aid programs. In particular, need analysis and program eligibility models are seen as far too complicated, forms too numerous, and the process, which Congress has for years intended to be free to students and families, expensive and time consuming. The Advisory Committee is in a singularly important position to effect change and improvement in these areas. The first opportunity to do so is afforded by the recommendations that the Committee must deliver to the Secretary regarding the structure and cost of the MDE process.

For years, decisions about the various Federal programs have been made in piecemeal fashion. The myriad categorical eligibility requirements and separate delivery systems for Pell, the Campus-based, and GSL Programs are testimony to the fact that a new approach is required--one that considers all Title IV Programs and their delivery simultaneously. While the issues surrounding the MDE structure may at first seem related only to the Pell Program and the procurement of MDE services, they in fact relate to the entire structure of Federal delivery and must be viewed in that context.

Revisiting the structure of the MDE process has been necessitated by dissatisfaction with the non-competitive nature of those procurements. Both the Congress and the IG are on record that these contracts are not unique, will benefit from greater competition, and must not result in adverse effects on students and families. In this last regard, two issues are of critical importance to the Committee; proliferation of forms and fees to students and families to apply for Federal aid.

While the MDE contracts have in the past served to minimize somewhat the negative effects of two separate delivery systems, they have also perpetuated numerous forms and application fees. The primary reason for this was that need analysis - the Uniform Methodology - was used throughout the financial aid community to deliver the Campus-based programs, as well as several institutional and state programs. While students under the existing system file free for Pell, they cannot in general file free for the Uniform Methodology. Thus, the MDE contracts are Pell contracts - not Title IV contracts - and serve to underwrite the existence of different forms and processing fees.

The Congress, however, recently made an historic change in need analysis. The Congressional Methodology is now written into the law and must be used for Federal programs other than Pell. Thus, need analysis occupies the same position now as does the Pell family contribution schedule - in the law subject to yearly revisions by the Congress.

In this new context, it makes little sense to continue to view the MDE contracts as Pell contracts - thus continuing a system without the free common federal form mandated by Congress. The new MDE contracts must be Title IV contracts - delivering all federal programs free to applicants. These contracts must be used as leverage to encourage processors, services, states and institutions to cooperate in simplifying and rationalizing the Federal delivery system. They must be full service, Title IV contracts for students, state agencies, and institutions. Accordingly, they must provide adequate statistical summary reporting. Lastly, they must be centers for free, early application for Title IV aid for needy high school students.

Since these data processing services are not unique and many potential processors can show the necessary qualifications, the selection of MDE processors must be open, fair and competitive - not prejudiced toward existing MDEs through arbitrary participation and technical evaluation criteria. Above all, it must be made known at the outset that winners of the competition will implement a free common form for the Federal programs. Criteria such as having one's own form must not be used to arbitrarily restrict competition or selection - since it runs counter to the objectives of the MDE contracts, as Title IV contracts.

The specific recommendations concerning expanding the number and type of processors can be derived directly from committee objectives and this long-run, integrated view of Title IV delivery:

- Expand the number of MDE processors gradually - but only to agents willing to implement a free, common Federal form.
- Fees (processing) to MDEs should not be standardized; but rather should be a result of the competitive process.
- Development costs should be determined competitively for each contractor but must not be used for reimbursement of forms development.

The following paper provides a more detailed discussion of specific issues.

Background

Since the 1970s, the Department of Education (ED) has contracted with a set of need analysis processors and states to provide application data to the Pell Grant Central Processor, which processed the Federal application directly and produced the student aid reports for all students. These data were collected on their need analysis forms primarily for the Uniform Methodology. The contracts, known as multiple data entry contracts (MDE), permitted some students to complete only one application and to receive a Pell Grant, thus lessening unnecessary duplication of applications. This structure, consisting of separate processors and, in fact, different delivery systems for the Pell Grant and other Title IV programs, was caused by ED's decisions to maintain centralized processing for the range of functions (e.g., application processing, data base management, etc.).

Until the most recent procurement, these MDE contracts were sole-source, negotiated procurements. In the most recent procurement, however, a more competitive process was employed, which reduced prices and increased from three to four the number of MDEs.

Two recent events have affected the environment in which these MDEs operate and the procurements occur and provide a backdrop for the Committee's discussions. First, reauthorization (the 1986 Amendments) altered the environment in several ways including: writing need analysis into the law, calling for a free, common form for all Title IV programs, expanding the number of MDEs, and requiring that the Advisory Committee make key recommendations concerning the number, type, cost and impact of the MDE structure on students. Writing need analysis into the law and requiring a free, common form suggests that Congress would look favorably on moving the functions of these MDE processors from serving the Pell program only, to a broader Title IV function. The second event was the Inspector General's report criticizing the MDE procurements as non-competitive.

In response to these changes, the Department of Education has been considering several alternatives to the current configuration:

- full decentralization of application processing - elimination of the Application Central Processor
- full centralization - elimination of MDEs
- status quo with some technological improvements
- modified status quo - all application functions to MDEs, database management, edits and computes with the Central Processor.

Processing of the Federal form - a major issue - devolves to one of the MDEs in the first and fourth options.

While ED has not made public its choice among the four options, it is clear that the Committee's recommendations on these matters must be seen as part of possibly large shifts in the delivery of Title IV aid.

Organization of the Paper

The following sections of this paper present the purpose and approach that the staff has used in developing the position presented here. The paper presents the ideal Federal system (long-term goals) and the objectives that should be used to evaluate or design short policy proposals. The paper then identifies a set of issues for each basic question (e.g., number of MDEs) and develops recommendations.

Purpose

One of the most important charges to the Advisory Committee is to examine and assess the structure and process of multiple data entry in the delivery of the Pell Program. Specifically, by August 1988, the Committee must provide the Congress and the Secretary its recommendations regarding:

- increases in the number and type of MDE processors;
- standardization of processing fees; and
- payment of developmental (as opposed to processing) costs to MDE processors.

Critical to developing its recommendations in each area is the assessment of impact on students and families of each proposed policy. Committee staff have been examining these issues, discussing them with Department officials, and preparing a position paper to be discussed at our July meeting in Denver. This is a first draft of that position paper for your review and comment.

Approach

Our approach in developing short term recommendations is to first identify several design principles that underpin the ideal Title IV delivery system and required improvements in the long term. These principles emanate in part from our reading of Congressional intent as revealed by recent legislation. They are:

- o Simplicity
- o Integration
- o Decentralization
- o Equity

While these design principles are not always easy to interpret and mutually inclusive, it is clear that they represent the desired direction of delivery system changes in the long run.

These principles can be used--indeed must be used--in developing our specific recommendations to the Secretary regarding the next procurement of MDE services. That is, the Advisory Committee will not propose changes (or status quo) in the short run that foreclose important opportunities for simplifying, integrating and decentralizing student aid delivery in the future. Above all, the Committee will not recommend any action in the short term that delays achieving the equity goals of the Title IV programs.

The Ideal System (Federal)

The design principles above can be used to specify the ideal Federal system:

- o A free, common form for all Federal programs.
- o Simple, integrated need analysis and eligibility rules for all Federal programs that promote equity goals.
- o Decentralized, distributed processing with central control of data integrity, disbursement and tracking, and reconciliation.
- o A free, early information and eligibility process for junior high school students for all Federal student assistance programs, with particular emphasis on disadvantaged youth.

While these objectives may take time to achieve, no short-term changes should be made that interfere with their achievement in the next three to five years.

Objectives

The structure of the ideal Federal system in turn can be used to derive practical objectives that can be used to evaluate or design short-term policy proposals. In the case of the MDE issue, these objectives seem to be the following:

- The Advisory Committee must recommend actions that reduce the number of forms that deliver Federal aid. Movement must be toward a common form for Federal programs and its development should not be delayed by procurements based on the status quo.

- Similarly, any short-term policy must be consistent with simplifying application and eligibility determination processes for students and families. Changes that make these processes longer or more complex are not acceptable.

- Short-term changes must be consistent with decentralizing those functions related to the student/institution interface. Only database management, disbursement, and reconciliation functions require the current level of centralization.

- All changes must lead to greater program integration. No further fragmentation of means testing, program eligibility determination, or delivery is acceptable. MDE processing must strongly support the acceptance and use of a free, common Federal form and the Congressional Methodology. Changes should not sustain or add to the high costs for students and families to prove need.

- Any changes must enhance the ability of Federal programs to serve the disadvantaged populations--the primary target group for the Title IV programs.

In addition to these objectives, two practical constraints can be identified from Congressional intent and current procurement regulations:

- Disruption to the delivery system of any short-run changes (e.g., procurement features) must be minimized. Students and families must see only improvements.

- Short-term changes to procurements must be consistent with standard, accepted, competitive practice at ED. The MDE contracts are no longer unique and must be designed to produce efficient, effective delivery of MDE services to students and institutions.

The objectives above can be used to identify recommendations to the Secretary and the Congress regarding the upcoming procurement of MDE services. The recommendations must include advice concerning increasing the number and type of processors, imposition of a standardized fee, and payment of development costs to contractors (to convert systems, not forms). Our recommendations are outlined below. Discussion of each recommendation is provided in the next section.

RECOMMENDATIONS

Number of MDEs: Issues

- Should the number be expanded?
- Should constraints be placed on increases in the short run?
- Does it depend on what happens to the Central Application Processing Contract?
- Should that contract continue if the number of MDEs are expanded significantly?
- Should the MDE contracts remain essentially the same (i.e., Pell Contracts) or be Title IV-wide contracts?
- How does the structure of the MDE contracts relate to the goals of a common form and free processing of Title IV aid eligibility?

Number of MDEs: Recommendations

- It is advisable and consistent with the intent of Congress to expand the number of MDE processors only if this leads to implementation of a free, common Federal form for Federal aid.
- It is not reasonable to place arbitrary restrictions on the number of new MDE processors.
- As the nature of the MDE contracts changes, ED should eliminate the redundant application processing functions of its central contractor(s).
- The new MDE contracts must be viewed as "Title IV" processing contracts--not just Pell contracts.
- Their primary goal should be free, distributed processing of all Title IV aid eligibility for needy students.

Type of MDEs: Issues

- Should there be limits on the kind of MDE processors?
- Should all private, "for profit" firms, nonprofit service agencies, state agencies, and institutions be allowed to compete?
- Should limits be placed on participation by agents who are not now processing forms for students and institutions?
- Should "type" be limited by arbitrary participation criteria or technical procurement evaluation criteria?

Type of MDEs: Recommendations

- Only organizations willing to implement a free, common, Federal form should be allowed to participate in the competition.
- It is advisable, in the near term at least, to place some limit on the kind of organizations (corporate experience) that may participate in the MDE competition.
- It is not advisable to restrict participation to exclude large, private contractors or state agencies with considerable experience in student aid processing--especially if the application processing functions of the central processor are to be eliminated.
- Technical factors should be as important as cost factors in the evaluation.

Processing Fees: Issues

- Should processing fees be competitively determined, negotiated or standardized?
- Can such fees legitimately vary across MDE contractors?
- What is the ideal relationship between MDE processing fees reimbursed by ED and application fees charged to students?
- Who should pay for Title IV aid eligibility determination?

Processing Fees: Recommendations

- Processing fees (the amount reimbursed by ED) must be competitively determined.

- It is reasonable, as in most other Federal procurements, for these fees to vary somewhat from contractor to contractor within an acceptable range. It is not in students' or institutions' interest to standardize these fees through a non-competitive process.

- The costs to students of applying for Federal aid must not increase; indeed, more students should be processed at no charge to the student or family.

- Costs must not be shifted to institutions. Current services should be maintained through redesigned MDE contracts.

Development Costs: Issues

- Should development costs be competitively determined?

- What costs are allowable?

- Is it reasonable for development costs to vary across MDE processors?

Development Costs: Recommendations

- Development costs for modifying and converting processing systems should be competitively determined--not negotiated as in the past. This is standard practice in all other ED procurements, even those that select multiple contractors.

- Reasonable system development costs are allowable; development costs for forms development must not be paid.

- Development costs can, indeed should, vary from processor to processor as in most other Federal procurements and multiple award contracts. Contractors should be encouraged to trim such expenses through the competitive process.

DISCUSSION

Number of MDEs

The issue over the number of MDEs used to deliver the Pell Program has arisen because of dissatisfaction with the structure of the MDE procurement process and the contract put in place by ED. Concerns have been expressed about the arbitrary and restrictive participation criteria as well as the negotiated character of processing fees and developmental costs. The major problem according to critics is the uncompetitive nature of the process and an unacceptably wide range of fees and charges reimbursed by ED.

While the Advisory Committee recognizes these concerns, the most important issues relate to designing the next round of MDE procurements to move the delivery system in the direction of the goals identified earlier in this paper. Of paramount importance is the role these contracts and Pell Central Application Processor play in the overall delivery of Federal student aid. The Advisory Committee feels that continuation of the status quo with more MDEs does not move toward these goals. As the number and type of MDE processors expands, the redundancy between these contracts and the Pell Application Processing Contract is simply preserved and becomes much more costly. It is not desirable from a policy or technology standpoint for numerous MDEs, qualified to perform all computational and data transmission functions, to send data to another processor for redundant calculations. Expansion and decentralization of MDE functions must be seen as consistent with the elimination of centralized application processing functions. The database management, disbursement, and reconciliation functions must, however, remain centralized and under the direct control of ED.

As the MDE contracts become more important in the application for Federal aid, it is critical that they be viewed as Title IV-wide contracts. Eliminating the Application Processing Contract without making each MDE a Title IV-wide processor -- i.e., giving one MDE the Federal form -- is an unacceptable solution that continues dual processing. These contracts must be used to further the goal of free application and eligibility determination for Federal programs for needy students. They must be used to move toward a common Federal form and integration of need analysis and program eligibility -- not to underwrite different forms and processing fees.

The services procured by ED under these contracts are <u>not</u> unique and should be structured like other competitive procurements at ED. With regard to the number of MDE processors, several points are important:

- There is evidence that substantial numbers of processors exist who can properly deliver these services to students and institutions.

- Indeed, in a world of decentralized, truly distributed processing, for very large institutions an MDE may be redundant, since these institutions can be electronically linked to a central database management and disbursement system -- especially for reapplications.

These facts suggest the following approach.

- Move gradually to a more decentralized MDE process.

- Select new technically qualified processors.

- Eliminate disruptive competition between existing and new MDEs as to forms and models. Students and institutions are served by competition that brings costs down and increases services.

- Plan for an eventual move to a world of distributed processing where institutions and agencies can be directly linked to ED's central system -- especially for reapplication.

- Redirect resources currently spent in the Application Processing Contract to the MDE contracts to cut costs and make them Title IV contracts.

The Advisory Committee should avoid recommending a given number of MDEs in the short run. Instead, ED should have the flexibility to choose the exact number of processors on the basis of technical and cost information supplied in the competitive procurement process. Indeed, ED should not prescribe a number of MDEs in its RFP to avoid undercapacity. For example, ED may select the five that have the lowest cost and highest technical qualities. However, collectively, these five may not provide adequate capacity for processing applications.

There are also analytic reasons for the Advisory Committee not to recommend a number. Despite requesting from ED information concerning analyses that would underpin such a recommendation, none has been provided. Thus, without adequate cost and capacity data it would be arbitrary to identify an optimal number of MDEs.

Type of MDEs

As long as the services procured from MDEs are specific -- implementation of a free, common form -- and strict standards are

met, there are few grounds on which to limit the type of firm, agency or institution that can participate. However, it is important that prospective MDE processors have the financial and administrative capability to perform the services required. It is also important that ED maintain control of the competitive process and not let a "cost shoot-out" among new paper processors result in wholesale displacement of existing, qualified processors with corporate experience in student aid. At the same time, however, a clear signal should be given to incumbent processors that cost will be an important evaluation criterion.

Expanding the number and type of MDE processors can have two very different impacts on students, families, and institutions. On the positive side, it could lead to more processing alternatives and lower costs. On the negative side, without strict controls it will lead to proliferation of forms, loss of service, greater confusion, and unnecessary and harmful competition among processors. Much of this depends on how ED structures its procurement in regard to participation and evaluation criteria. ED should be planning very carefully for migration to a very decentralized system in which large institutions or consortia of states or institutions might be linked to ED's central data management and reconciliation processor. As long as current MDE processors are encouraged to be cost competitive, a gradual movement is to be vastly preferred to disruptive change.

In summary, ED should use this opportunity to change the MDE procurements to require:

- Use of a common Federal form by all MDE processors; and
- Free processing to students and families for Pell and the Congressional Methodology;
- Standardized, statistical reporting and summary services to institutions at no cost; and
- Free, early diagnostic services for junior high school students.

MDEs should be free to charge fees to students, states, or institutions to collect additional information or provide further services. Institutions and states will likewise continue to gather additional information required for their programs. However, they must accept Federal eligibility reports from any approved MDE contractor, for Title IV aid.

Standardized Fees (Processing)

The interest in standardizing processing fees stems largely from dissatisfaction with unacceptable variations in the negotiated fees under the current contract. However, standardizing such

fees using current ranges resulting from a negotiated contract is much less desirable than determining their level through a truly competitive process. Indeed, standardizing fees, to the extent that it involves a movement away from competition, is a step in the wrong direction.

In addition, these fees should not be standardized to include the array of services currently delivered by MDE contractors. As these contracts move toward "full" service, Title IV contracts, flexibility and competition will be required to determine the array of fees that best serve the interests of the Government, students and institutions.

Development Costs

It is typical for the Federal Government to allow for and reimburse contractors for modifying data processing systems to deliver required services. Two major issues associated with development costs in the current MDE contracts have caused great concern:

- their negotiated level and variability from contractor to contractor; and
- more important, the possible inclusion in such costs of forms development charges.

The first issue is a relatively minor one that will be eliminated by a truly competitive, MDE procurement process. ED should design their procurement so that it is virtually impossible for contractors to pass along inappropriate or excessive development costs. The second issue is more important. No reimbursement for costs should occur for forms development. Indeed, the Advisory Committee recommends that ED prohibit the use of different forms for Federal eligibility.

SUMMARY

- The Advisory Committee has been charged by Congress to provide advice and recommendations that improve the delivery of Federal student aid.
- The MDE issue must be viewed as having broad and important ramifications for the whole delivery system.
- The ideal system is an efficient one with a free, common form and simple, accurate and understandable need assessment and program eligibility determination.
- The current system is deficient in that forms are numerous and expensive, need analysis and program eligibility determination unduly complex, and processing redundant.
- The current MDE contracts serve to perpetuate separate delivery of Pell and other Title IV Programs, numerous forms, and processing fees to students and their families.
- Now that both the Pell family contribution schedule and the Congressional Methodology are in the law, this separation, duplication of forms, and processing fees are totally unnecessary.
- The current MDE contracts must be changed from Pell contracts to Title IV contracts with a free, common form--full service, Title IV contracts.
- The separate Pell Application Processing Contract should be eliminated.
- The new MDE contracts must include adequate and timely reporting services to students and institutions and free, early diagnostic services to high school students.
- New MDEs must be selected competitively in an open, fair competition without arbitrary, restrictive participation criteria.
- Both processing fees and development costs should be determined competitively.
- All MDEs must implement a free, common form.

Attachment B

Report on MDE Hearing

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

REPORT ON MDE HEARING

PREPARED BY THE

ADVISORY COMMITTEE STAFF

AUGUST 1988

REPORT ON MDE HEARING

INTRODUCTION

One of the most important charges to the Advisory Committee is to examine and assess the structure and process of multiple data entry in the delivery of student aid. The Committee has been asked specifically to provide Congress and the Secretary of Education with recommendations relating to the expansion of the number and type of Multiple Data Entry (MDE) processors, payment of costs for developing forms, and standardization of processing fees. Over the spring and early summer of 1988, Advisory Committee staff studied issues related to the selection of MDE processors, the definition of their tasks, and their role in the delivery system for federal student financial assistance. This study resulted in a draft position paper which would form the basis for the discussion of the MDE issue at the Committee's July 1988 meeting.

On July 20, 1988, the Committee held an open hearing on issues relating to MDE processors and their role in the student aid delivery system. The hearing was held in conjunction with the National Association of Student Financial Aid Administrators (NASFAA) annual conference in Denver, and conference registrants were invited to participate. In his letter of invitation, Dr. Dallas Martin outlined the design principles and objectives that the Committee's draft MDE position paper had articulated (see attached).

Twenty-six people offered testimony at the hearing on July 20, 1988. They represent most of the parties interested in federal student financial assistance policy: minority and non-traditional students, financial aid administrators, a pre-college counselor with Talent Search, a state loan guaranty agency, a representative of a state student aid commission, private firms that perform need analysis, and representatives from three of the current MDE processors. The fifteen aid administrators represented every geographic region in the country, and reflected the entire spectrum of higher education: public and private, selective and open admission, 2-year and baccalaureate, vocational programs and large research institutions. (See attached for a list of presenters.)

THEMES

The written testimony of most of the participants is appended to this report, but some general themes were apparent in the discussion and are highlighted here. Those who addressed the

Committee generally endorsed the long term objectives outlined in the Committee's draft position paper on MDE processors:

- o reducing the number of forms needed to deliver federal aid
- o simplifying application and eligibility determination processes for students and families
- o decentralizing the student/institution interface
- o integrating means testing and delivery
- o increasing service to disadvantaged populations
- o processing need analysis forms at low or no cost to students.

While there was support for the general goals expressed in the MDE position paper, presenters articulated a wide variety of strategies for achieving those goals, and occasionally dissented from the Committee's recommendations. A brief summary of the discussion surrounding each of these goals follows.

REDUCING THE NUMBER OF FORMS NEEDED TO DELIVER FEDERAL AID

Nearly every person who testified spoke at some length about inefficiencies and duplication of effort inherent in the current data collection system. Aid administrators claim the number of forms they are required to collect grow every year, and the profusion of forms and complexity of data demands is chilling for students and parents. This was graphically illustrated early in the hearing when one financial aid administrator listed the forms that a typical student might be required to fill out at his institution - forms that cover 143 pages.

It was noted that decentralizing the student/processor interface to the MDEs will have the effect of reducing the number of forms most students need to complete in order to receive aid. Under a decentralized processing system students' Pell application will be incorporated into the application for other forms of student assistance; ideally a single form would determine eligibility for all Title IV assistance.

Reapplication

In the discussion of simplification, questions were raised about the utility of annual reapplication for subsequent years at the same institution. It was suggested that information supplied in the first-year aid application does not change substantially in subsequent years; eliminating reapplication would

substantially decrease the burden on students, parents, and aid administrators without compromising the integrity of the aid programs.

SIMPLIFYING APPLICATIONS AND ELIGIBILITY DETERMINATION PROCESSES FOR STUDENTS AND FAMILIES

The Problem

Those who testified indicated that aid applicants and their families are confused by the changing names, eligibility requirements, deferral arrangements, grace periods, and interest rates that characterize the recent history of federal student financial assistance. They often don't understand which forms they must fill out, what documentation they must provide, why questions are being asked of them, or how their eligibility is determined. The current application forms collect a great deal of information, but for most students a simpler, shorter form would serve as well or better. Several people commented on the increase in complexity due to matters peripheral to need analysis, such as selective service registration, documentation of alien registration, and proposals relating to drug abuse prevention programs. The proliferation of questions designed to identify and aid relatively small groups of applicants has also complicated the form.

Reducing the Number of Questions and Using Professional Judgement

Those who testified at the hearing put forward many suggestions for simplifying the application process. Most felt that the delivery system could be improved by reducing the number of questions on the application and relying on aid administrators' professional judgement to identify and document cases with special circumstances. Under current regulations financial aid officers feel constrained by the verification and audit requirements - in the words of one witnesses "we're data mongers, not counselors." The heavy data demands on students and parents result in high error rates. According to one financial aid director, recalculation is common but rarely results in a significant change in award. Financial aid administrators acknowledge that accountability is important, but fear that verification procedures are absorbing scarce resources.

Eliminating the Collection of Asset Information

Some witnesses suggested eliminating the collection of asset information; others felt that failing to collect information about all financial resources would hamper the ability of financial aid officers to distinguish between wealthy and low-income students, and would ultimately harm those most in need by spreading finite resources over a larger pool of eligible students. Some suggested that a short and simple form be made

available to the lowest income students (those unlikely to have real estate and other significant assets), while students with greater resources or more complex financial situations might be required to elaborate or file supplementary forms. (A parallel was drawn between this two-form system and the various types of IRS forms - 1040, 1040A, and 1040EZ - and it was even suggested that the tax forms filed by students and their families might dictate the type of financial aid form they should use.) Other presenters suggested that it might still be possible to develop a single modular form to serve such a two-tiered data collection system: students who meet certain criteria (such as income below a certain dollar amount or certification by an appropriate social service agency) would fill out some basic demographic data and sign off; the rest of the students would fill out the entire form.

DECENTRALIZING THE STUDENT/INSTITUTION INTERFACE

Elimination of the Central Processor

Decentralization of MDE processing was championed by most of those who offered testimony; only one of the presenters voiced dismay at the Committee's tentative recommendation to limit the centralized function to data integrity, disbursement and tracking, and reconciliation functions.

Number of MDEs

While there was broad consensus that the processing function should be decentralized, there was less agreement about what the optimal number of MDEs might be. Some felt that greater numbers of MDEs would engender greater competition, forcing processors to lower their prices and offer more services. Others felt that adding even one more MDE processor would create a substantial data management burden and would unduly confuse students and their parents. Most of those who advocated an increase in the number of MDEs cautioned that such an expansion should occur in a measured and orderly fashion, giving aid administrators, students, parents, and loan agencies an opportunity to make appropriate adjustments.

Selection of MDEs

There was general agreement that a more open bidding process would reduce costs, but presenters felt that evidence of technical competence should weigh heavily in the consideration of proposals. In addition to factors such as speed and accuracy many financial aid administrators commented on ancillary services provided by the current MDE processors and suggested that specifications be written to include training, outreach, dissemination, and research services. One witness expressed concern about the potential for abuse or misuse when lenders and

guaranty agencies are allowed to serve as MDE processors, fearing that the data collected might be used to develop prospect lists for the sale of financial services and other products. The Committee asked other witnesses to comment on this prospect, and they acknowledged that while such an abuse was possible, steps could be taken to adequately safeguard students' interests.

INTEGRATING MEANS TESTING AND DELIVERY

Three Models of an Integrated Form

There was unanimous approval for the integration of the Pell application with applications for other Title IV aid, and three models were discussed for a Title IV-wide application: one on which only the data elements would be specified; one on which the sequence of the data elements would also be specified; and one which would dictate every detail of the form, which would be uniform across all processors. These three models range from complete standardization to complete flexibility, and there are strong arguments for both extremes of this range. During discussion some voiced the opinion that complete standardization would be too restrictive; differences in technology might require a variety of data element configurations. Others argued that a regulated sequence of data elements would facilitate the retrieval of information by aid administrators, particularly in institutions that receive applications from more than one MDE processor.

INCREASING SERVICE TO DISADVANTAGED POPULATIONS

Simplification

While all users seem to have trouble with the current student aid applications, presenters stressed that disadvantaged student populations (especially first-generation filers) often find the length and complexity of the forms particularly intimidating and the vocabulary particularly confusing. Rather than providing access, the applications for financial aid are keeping some students out of college. According to one presenter, many college-eligible and aid-eligible students are opting for military service over higher education because the process of enrollment is easier. Many of these students expect that the armed forces will pay for their education, but few actually matriculate upon leaving active duty.

Early Diagnosis and Notification

Financial aid practitioners testified that early notification of financial aid eligibility substantially enhances the likelihood of postsecondary matriculation and is therefore critical to the success of programs designed to serve underrepresented students. They stressed that evaluation and

counseling should occur at least as early as junior high, as students who are secure in the knowledge that they can count on financial assistance for their education are much more likely to complete a precollege curriculum. Early notification also allows families to plan ahead and budget for educational expenses.

Impact of Proposed Default Management Legislation

Both students and aid administrators worried that the default management proposal to hold GSL loan checks for 15-30 days would harm low-income students, who often arrive on campus with little or no money. The lack of access to their loan funds could cause students with scant personal resources not to enroll. Even if students do enroll, they may postpone the purchase of books and supplies, creating an unnecessary academic disadvantage.

PROCESSING NEED ANALYSIS FORMS AT LOW OR NO COST TO STUDENTS

Who Pays?

Everyone found the idea of free processing very appealing (and for low income students absolutely essential). However, a few people recognized that reducing the cost of processing for students translates into increased costs for someone else - either the schools, the Department of Education, or the processors themselves - and were concerned that this new expense would diminish resources available to provide other important services.

Continuing the Free/Fee Dichotomy

A minority of those present suggested that processing fees should only be waived for students who are low income or members of groups underrepresented in higher education. They further suggested that some of the models suggested in the discussion of simplified need analysis (such as the development of a two-part, modular form or an "EZ" form) might lend themselves to easily identifiable free/fee divisions.

OTHER NEED ANALYSIS CONCERNS

There were observations about the current structure of need analysis and suggestions for improved analysis and delivery that went beyond the Committee's short-term focus, and many at the hearing urged the Committee to consider a variety of suggestions for further study. One person asked that the formula basis for determining the Standard Maintenance Allowance be reviewed, and perhaps adjusted for regional variations in the cost of living. Administrators in vocational institutions expressed a need for accommodation of other than 9 month programs. One administrator asked the Committee to recommend the restoration of the Special

Condition Form to the delivery process for documenting special cases, such as death of a spouse. Two people mentioned the possibility of using several years' information to assess parental ability to pay. Another presenter urged the elimination of the overaward provisions in Congressional Methodology, allowing CM to be decoupled from the allocation of institutional (non-federal) funds. While recognizing the necessity of audit and program review functions, aid administrators unanimously agreed that "policing" by ED is overemphasized, and felt that better training programs would more efficiently and effectively address the problems of misusing funds.

Finally, there were questions raised about the logic behind need analysis policies and formulae: Is it incongruent with society's financial priorities? Does the system punish those who plan for their retirement, systematically save for their childrens' education, or otherwise demonstrate sound, responsible financial planning behavior? Aid administrators and students told the Committee that families perceive budgets, cost estimates, and needs analysis (particularly base year income) as inaccurate and perhaps not fair. They worry that these perceptions undermine the credibility of the student financial aid delivery system and diminish the cooperation necessary to make it work. They urge the Committee to expedite the review of these issues.